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Star Group Company Limited

星星集團有限公司

(Carrying on business in Hong Kong as SGCL)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1560)

INTERIM RESULT ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

The board of directors of Star Group Company Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2021 together with the comparative figures as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended	
		30.6.2021 HK\$'000 (Unaudited)	30.6.2020 HK\$'000 (Unaudited) (Restated)
Revenue	5	42,151	31,671
Cost of sales and services		(8,040)	(4,777)
Gross profit		34,111	26,894
Other income	6	16,073	5,988
Gain on disposal of a subsidiary		—	383,197
Loss on change in fair value of investment properties		(8,248)	(50,233)
(Loss)/gain on change in fair value of financial assets at fair value through profit or loss	15	(96)	50
Selling expenses		(1,378)	(1,604)
Administrative expenses		(48,540)	(45,263)
Finance costs	7	(16,283)	(26,471)

	Notes	Six months ended	
		30.6.2021 HK\$'000 (Unaudited)	30.6.2020 HK\$'000 (Unaudited) (Restated)
(Loss)/profit before tax	8	(24,361)	292,558
Income tax expense	9	(1,099)	(7,088)
(Loss)/profit for the period		(25,460)	285,470
Other comprehensive income for the period			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		(2,434)	144
(Loss)/profit and total comprehensive income for the period		(27,894)	285,614
(Loss)/profit for the period attributable to:			
Owners of the Company		(26,041)	287,843
Non-controlling interests		581	(2,373)
		(25,460)	285,470
Total comprehensive income for the period attributable to:			
Owners of the Company		(28,363)	294,190
Non-controlling interests		469	(8,576)
		(27,894)	285,614
(Loss)/earnings per share (in HK cents)			
— Basic	11	(4.06)	44.87
— Diluted	11	(4.06)	44.87

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the six months ended 30 June 2021

		Six months ended	
	<i>Notes</i>	30.6.2021	31.12.2020
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	12	4,628	6,000
Investment properties		994,842	1,050,712
Loan receivables	14	89,723	128,591
Financial assets at fair value through profit or loss	15	6,012	6,108
		<u>1,095,205</u>	<u>1,191,411</u>
CURRENT ASSETS			
Inventories		7,342	9,094
Properties held for sale		2,792,580	2,733,814
Trade and other receivables	16	56,102	48,926
Financial assets at fair value through profit or loss	15	35,590	35,590
Amounts due from related companies		54	14,713
Stakeholder's accounts		101,432	34,222
Pledged bank deposits		10,399	10,381
Bank balances and cash		111,030	55,457
		<u>3,114,529</u>	<u>2,942,197</u>
Assets classified as held for sale	13	69,837	—
		<u>3,184,366</u>	<u>2,942,197</u>
CURRENT LIABILITIES			
Trade and other payables	17	144,076	120,234
Contract liabilities		100,389	34,033
Amount due to a director		89,419	52,673
Amounts due to related companies		2	13,821
Lease liabilities		13,754	13,229
Tax liabilities		2,958	2,591
Borrowings	18	2,366,840	2,320,491
		<u>2,717,438</u>	<u>2,557,072</u>
Liabilities directly associated with assets classified as held for sale	13	528	—
		<u>2,717,966</u>	<u>2,557,072</u>

		Six months ended	
	<i>Notes</i>	30.6.2021	31.12.2020
		HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NET CURRENT ASSETS		466,400	385,125
TOTAL ASSETS LESS CURRENT LIABILITIES		1,561,605	1,576,536
NON-CURRENT LIABILITIES			
Lease liabilities		32,242	31,550
Convertible bonds — liability component	<i>19</i>	78,716	75,800
Deferred tax liabilities		55,320	55,506
		166,278	162,856
NET ASSETS		1,395,327	1,413,680
CAPITAL AND RESERVES			
Share capital	<i>20</i>	6,415	6,415
Reserves		1,397,504	1,416,326
Equity attributable to owners of the Company		1,403,919	1,422,741
Non-controlling interests		(8,592)	(9,061)
TOTAL EQUITY		1,395,327	1,413,680

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements of Star Group Company Limited (formerly known as Star Properties Group (Cayman Islands) Limited) (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021 have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accounts (“**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Stock Exchange**”). On 23 June 2021, the name of the Company has been changed from “Star Properties Group (Cayman Islands) Limited” to “Star Group Company Limited”.

2. COMMON CONTROL COMBINATION DURING PRIOR YEAR

On 21 July 2020, the Company and Metropolitan Lifestyle (BVI) Limited (the “**Vendor**”) entered into a sale and purchase agreement for the purchase of (i) the entire issued share capital of Metropolitan Group (BVI) Limited (“**Metropolitan**”); and (ii) all obligation, liabilities and debts owing or incurred by Metropolitan and its subsidiaries (collectively “**Metropolitan Group**”) to the Vendor on or at any time prior to the completion date of the acquisition (the “**Sale Loan**”) at an aggregate nominal consideration of HK\$460,000,000 (the “**Acquisition**”). The consideration is to be satisfied by cash of HK\$42,000,000 and issuance of convertible bonds by the Company with principal amount of HK\$418,000,000. The Acquisition was completed on 22 October 2020 (the “**Completion**”). Metropolitan Group is principally engaged in trading of fine wine, property leasing and provision of media production services. Further details about the Acquisition were disclosed in the circular of the Company dated 14 September 2020.

As the Company and Metropolitan are ultimately controlled by Mr. Chan Man Fai, Joe (“**Mr. Joe Chan**”), the Acquisition is a business combination under common control. The Acquisition is accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5 Merger Accounting for Common Control Combinations (“**AG 5**”) issued by the HKICPA as if the Acquisition had occurred on the date when the combining entities, i.e. the Company and Metropolitan first come under the control of Mr. Joe Chan. By applying the merger accounting, the assets and liabilities of the combining entities are combined using their existing book values from Mr. Joe Chan’s perspective.

In applying AG 5 to the Acquisition as described above, the interim condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six months ended 30 June 2020 have been restated to include the financial performance, changes in equity and cash flows of Metropolitan Group as if they were within the Group since 1 January 2020.

3. PRINCIPAL ACCOUNTING POLICES

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those followed in the preparation of the consolidated financial statements of the Group for the year ended 31 December 2020 (“2020 annual financial statements”).

APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

In the current period, the Group has applied for the first time, the following amendments to HKFRS. Except for *Amendment to HKFRS 16: COVID-19 Related Rent Concessions beyond 30 June 2021*, the Group has not applied any new or revised standards and interpretation that are not yet effective for the current period.

Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2
Amendment to HKFRS 16	COVID-19 Related Rent Concessions beyond 30 June 2021 (early adopted)

The adoption of these amendments has no material impact on the Group’s financial statements except as explained below.

Amendment to HKFRS 16: COVID-19-Related Rent Concessions beyond 30 June 2021

In April 2021, the HKICPA amended HKFRS 16 Leases, extending the practical expedient in order to permit lessees to apply it to rent concessions for which reductions in lease payments affect payments originally due on or before 30 June 2022. This amendment is applicable for annual reporting periods beginning on or after 1 April 2021, with early application permitted, including in financial statements not authorised for issue at 9 April 2021.

The Group has early adopted this amendment for its current reporting period beginning on 1 January 2021.

During the year ended 31 December 2020, the Group had elected to apply the practical expedient provided by the amendment to HKFRS 16 issued in June 2020. In accordance with this practical expedient, the rent concessions received affecting payments originally due on or before 30 June 2021 were not accounted as lease modifications. The 2021 amendment extends this time limit from 30 June 2021 to 30 June 2022.

The ineligible rent concessions now qualify for application of the practical expedient due to the amendment issued in April 2021.

The transitional requirements of the extension to the practical expedient require retrospective application, with the cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the entity first applies the amendment.

The adoption of the amendment has no material impact on these interim condensed consolidated financial statements as the rent concessions beyond 30 June 2021 provided to the Group is insignificant.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these interim condensed consolidated financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to 2020 annual financial statements.

5. REVENUE AND SEGMENT INFORMATION

	Six months ended	
	30.06.2021	30.06.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Revenue from contracts with customers		
Service income from provision of property management services	4,818	994
Service income from provision of construction and fitting out works	2,121	1,095
Trading of fine wine	7,871	3,647
Service income from provision of media production services	313	1,004
	15,123	6,740
Revenue from other sources		
Rental income from leasing of:		
— investment properties	1,380	1,750
— service apartments	1,353	1,577
— storage and workshop	17,964	15,228
— wine cellar	3,814	3,192
Interest income from provision of finance	2,517	3,184
	27,028	24,931
Total revenue	42,151	31,671

(A) DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

Segments	Provision of property management services		Wine business		Construction and fitting out works		Provision of media production services		Total	
	30.6.2021	30.6.2020	30.6.2021	30.6.2020	30.6.2021	30.6.2020	30.6.2021	30.6.2020	30.6.2021	30.6.2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)		(Restated)		(Restated)		(Restated)
Provision of property management services	4,818	994	—	—	—	—	—	—	4,818	994
Provision of construction and fitting out works	—	—	—	—	2,121	1,095	—	—	2,121	1,095
Trading of fine wine	—	—	7,871	3,647	—	—	—	—	7,871	3,647
Provision of media production services	—	—	—	—	—	—	313	1,004	313	1,004
Total	4,818	994	7,871	3,647	2,121	1,095	313	1,004	15,123	6,740
Geographical market										
Hong Kong	4,818	994	7,871	3,647	2,121	1,095	313	1,004	15,123	6,740
Timing of revenue recognition										
A point in time	—	—	7,871	3,647	—	—	—	—	7,871	3,647
Over time	4,818	994	—	—	2,121	1,095	313	1,004	7,252	3,093
Total	4,818	994	7,871	3,647	2,121	1,095	313	1,004	15,123	6,740

(B) SEGMENT INFORMATION

The Group's reportable and operating segments under HKFRS 8 Operating Segments are as follows:

1. Property development — sales of properties
2. Property investment — rental income from leasing of properties
3. Provision of property management and security services — provision of property management services
4. Construction and fitting out works — provision of construction and fitting out works

5. Provision of finance — provision of financing services to the property buyers
6. Wine business — sales of fine wine and rental income from leasing of wine cellars
7. Provision of media production services — provision of media production services in marketing, advertisement and organisation of music concerts

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30.6.2021	30.6.2020	30.6.2021	30.6.2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)
Property development	—	—	(5,905)	370,840
Property investment	20,697	18,555	797	(54,725)
Provision of property management services	4,818	994	1,037	637
Construction and fitting out works	2,121	1,095	143	(262)
Provision of finance	2,517	3,184	1,641	2,074
Wine business	11,685	6,839	1,770	525
Provision of media production services	313	1,004	118	(1,097)
	<u>42,151</u>	<u>31,671</u>	(399)	317,992
Unallocated income			5,005	642
Unallocated expenses			(25,435)	(25,045)
Finance costs			(3,532)	(1,031)
(Loss)/profit before tax			<u>(24,361)</u>	<u>292,558</u>

Segment results represent the profit earned or loss incurred by each segment without allocation of certain other income, administrative expenses and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Segments assets		
Property development	2,998,426	2,822,413
Property investment	1,072,537	1,076,173
Provision of property management services	432	63
Construction and fitting out works	1,716	1,619
Provision of finance	114,685	152,359
Wine business	60,342	58,328
Provision of media production services	900	759
	<hr/>	<hr/>
Total segment assets	4,249,038	4,111,714
Unallocated assets	30,533	21,894
	<hr/>	<hr/>
Consolidated total assets	<u>4,279,571</u>	<u>4,133,608</u>
Segments liabilities		
Property development	1,985,086	1,851,834
Property investment	604,210	615,212
Provision of property management services	151	3
Construction and fitting out works	17,271	5,454
Provision of finance	18,636	18,783
Wine business	58,550	65,401
Provision of media production services	844	821
	<hr/>	<hr/>
Total segment liabilities	2,684,748	2,557,508
Unallocated liabilities	199,496	162,420
	<hr/>	<hr/>
Consolidated total liabilities	<u>2,884,244</u>	<u>2,719,928</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than financial assets at fair value through profit or loss, certain pledged bank deposits, bank balances and cash, and other corporate assets not attributable to the reportable segments; and

- all liabilities are allocated to operating segments other than certain borrowings, convertible bonds — liability component and other corporate liabilities not attributable to the reportable segments.

6. OTHER INCOME

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Interest income earned on bank balances and pledged bank deposits	106	335
Temporary rental income from properties held for sales	7,885	4,268
Government grant from Employment Support Scheme	—	302
Wavier of an amount due to a related company	7,009	—
Others	1,073	1,083
	16,073	5,988

7. FINANCE COSTS

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Interests on:		
Borrowings	24,842	44,693
Advance from a director	1,225	413
Interest on lease liabilities	1,364	1,807
Imputed interest on convertible bonds	2,916	—
Total borrowing costs	30,347	46,913
Less: amount capitalised in cost of qualifying assets	(14,064)	(20,442)
	16,283	26,471

Borrowing costs capitalised at rate ranging from 1.39% to 5.0% (six months ended 30 June 2020: 2.33% to 5.0%) per annum during the period arose on the specific and general borrowings for the expenditure on each property development.

8. (LOSS)/PROFIT BEFORE TAX

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
(Loss)/profit before tax has been arrived at after charging/(crediting):		
Directors' emoluments	3,286	11,790
Other staff costs		
Salaries and other allowances	11,348	6,176
Retirement benefit scheme contributions	585	293
	<u>15,219</u>	<u>18,259</u>
Total staff costs	15,219	18,259
Less: capitalised in properties held for sale	(1,860)	(1,819)
	<u>13,359</u>	<u>16,440</u>
Auditors' remuneration	403	653
Cost of inventories recognised as an expense	982	582
Depreciation of property, plant and equipment	511	458
Depreciation of right-of-use assets	959	959
	<u>4,855</u>	<u>6,652</u>

9. INCOME TAX EXPENSE

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
		(Restated)
Hong Kong Profits Tax — current period	1,099	2,190
Deferred taxation	—	4,898
	<u>1,099</u>	<u>7,088</u>

Under the two-tiered profits tax rates regime introduced by The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”), the first HK\$2 million of profits of the qualifying group entity in Hong Kong will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The group entities in South Korea are subject to Korean Corporate Income Tax which comprises national and local taxes (collectively “**Korean Corporate Income Tax**”). Korean Corporate Income Tax is charged at the progressive rate from 11% to 24.2% on the estimated assessable profit of eligible entities derived worldwide. No provision on Korean Corporate Income Tax has been provided as there is no estimated assessable profits during both periods.

10. DIVIDEND

Six months ended	
30.6.2021	30.6.2020
HK\$'000	HK\$'000
(Unaudited)	(Unaudited)

Dividends for ordinary shareholders of the Company recognised as distribution during the period:

2020 final dividend — Nil (Year ended

31 December 2020: 2019 final dividend of HK0.2 cents) per share

<u> </u>	<u> </u>
<u> </u>	<u> </u>
—	1,283

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: HK2.0 cents per share).

11. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	Six months ended	
	30.6.2021	30.6.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
(Loss)/earnings		
(Loss)/earnings for the period attributable to owners of the Company for the purpose of basic and diluted (loss)/earnings per share	<u>(26,041)</u>	<u>287,843</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	<u>641,498</u>	<u>641,498</u>

Note: For the six months ended 30 June 2021, no diluted loss per share is calculated as the potential dilutive ordinary shares arising from convertible bonds and share options have an anti-dilutive effect on the basic loss per share amount presented. The computation of diluted earnings per share for the six months ended 30 June 2020 did not assume the exercise of the Company's share options because the average market price of ordinary shares during the period did not exceed the exercise price of the share options.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired property, plant and equipment of HK\$148,000 (six months ended 30 June 2020: HK\$491,000) and there was no disposal of property, plant and equipment for the current and prior periods.

**13. ASSETS CLASSIFIED AS HELD FOR SALE AND LIABILITIES
DIRECTLY ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR
SALE**

	30.6.2021	31.12.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Investment properties	69,000	—
Property, plant and equipment	50	—
Tax refundable	50	—
Bank balances	737	—
	<u>69,837</u>	<u>—</u>
Other payables	(342)	—
Deferred tax liability	(186)	—
	<u>(528)</u>	<u>—</u>

Pursuant to a provisional sale and purchase agreement dated 3 March 2021 (the “**Provisional Agreement**”), the Group conditionally agreed to dispose of the entire equity interest in a subsidiary which holds an investment property to an independent third party purchaser (the “**Purchaser**”) at a consideration of HK\$51,750,000 (subject to further adjustment according to the terms of the Provisional Agreement). Details of the disposal are set out in the Company’s announcements dated 3 March 2021 and 4 March 2021.

On 25 June 2021, the Group entered into another sale and purchase agreement to sell an investment property to an independent third party purchaser at a consideration of HK\$19,000,000. Details of the disposal are set out in the Company’s announcement dated 25 June 2021.

Since the above disposal transactions are expected to be completed within 12 months from the end of the reporting period, the relevant investment properties, together with other assets and liabilities directly associated thereto, have been transferred to assets and liabilities held for sale during the period respectively.

The above investment properties have been pledged to secure bank borrowings granted to the Group. Details are set out in Note 18. The assets pledged by the Group will be released upon the disposal transactions are completed.

14. LOAN RECEIVABLES

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Variable-rate loan receivables	<u>114,368</u>	<u>151,998</u>
Analysis as:		
— Non-current portion	89,723	128,591
— Current portion (<i>Note 16</i>)	<u>24,645</u>	<u>23,407</u>
Total	<u>114,368</u>	<u>151,998</u>

Notes:

As at 30 June 2021, the balance included:

- (i) a loan receivable of HK\$87,000 at 31 December 2020, which was secured by the property unit of a borrower, interest bearing at Hong Kong Prime Lending Rate quoted by the lending bank plus 2% per annum. The loan receivable has been fully repaid during the current period;
- (ii) loan receivables amounting to HK\$7,350,000 (31 December 2020: HK\$10,027,000), which are secured by the property units of a borrower, interest bearing at Hong Kong Prime Lending Rate quoted by the lending bank. The principal amounts will be fully repaid at the respective maturity dates;
- (iii) loan receivables amounting to HK\$94,823,000 (31 December 2020: HK\$129,689,000), which are secured by the property units of the borrowers and interest bearing at Hong Kong Prime Lending Rate quoted by the lending bank minus 1.75% per annum. The principal amounts will be repaid in accordance with the repayment schedules;
- (iv) a loan receivable amounting to HK\$9,795,000 (31 December 2020: HK\$9,795,000), which is secured by the property unit of a borrower and interest bearing at Hong Kong Prime Lending Rate quoted by the lending bank minus 2% per annum. The principal amount will start to be repaid in September 2022 in accordance with the repayment schedules; and
- (v) a loan receivable amounting to HK\$2,400,000 (31 December 2020: HK\$2,400,000), which is secured by the property unit of a borrower and interest bearing at a fixed rate of 12% (31 December 2020: at Hong Kong Prime Lending Rate quoted by the lending bank plus 1.75% per annum). The principal amount will be fully repaid in May 2022 in accordance with the repayment schedules.

Loans are provided to borrowers at a range of 60% to 80% (31 December 2020: 60% to 80%) of sale consideration of the pledged property units. The directors of the Company consider that the fair values of the collaterals are higher than the carrying amount of loan receivables at both 30 June 2021 and 31 December 2020.

As at 30 June 2021 and 31 December 2020, all the loan receivables are neither past due nor impaired.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Unlisted investment fund	<i>(a)</i>	4,493	4,589
Unlisted participation note	<i>(b)</i>	1,519	1,519
Derivative financial instrument — redemption option	<i>(c)</i>	35,590	35,590
Total		<u>41,602</u>	<u>41,698</u>
Classified as:			
Financial assets at fair value through profit or loss (“FVTPL”):			
— Non-current		6,012	6,108
— Current		35,590	35,590
		<u>41,602</u>	<u>41,698</u>

Notes:

- (a) The Group subscribed an unlisted private equity fund at cost of HK\$5,000,000, representing 10% of the total fund size in previous years. For the six months ended 30 June 2021, the Group has recognised a fair value loss of HK\$96,000 (six months ended 30 June 2020: fair value loss of HK\$41,000) in respect of the fair value changes in the profit or loss.
- (b) As at 30 June 2021, the unlisted participation note is at a fair value of HK\$1,519,000 (31 December 2020: HK\$1,519,000). No change in fair value has been recognised in the profit or loss (six months ended 30 June 2020: Nil).

- (c) The balance represents the redemption derivative component in relation to the convertible bonds (*Note 19*).
- (d) During the six months ended 30 June 2020, the Group recognised a fair value gain of HK\$91,000 in respect of equity securities listed in Hong Kong held by the Group. Such investments have been realised as at 31 December 2020.

16. TRADE AND OTHER RECEIVABLES

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Trade receivables	2,851	2,126
Lease receivables	3,626	2,727
	6,477	4,853
Less: Allowance for credit losses	(1,166)	(1,166)
	5,311	3,687
Deposits and other receivables, and prepayments		
— Loan receivables (<i>Note 14</i>)	24,645	23,407
— Loan interest receivables	162	242
— Rental deposits and other receivables	12,462	13,439
— Prepayments	13,522	8,151
	50,791	45,239
	56,102	48,926

Customers from trading of fine wine are granted with credit term of 7 days. No credit term is allowed for trade receivables from property management and security services, construction and fitting out works, media production services and lease receivables.

The following is an aged analysis of trade receivables and lease receivables, net of allowance for credit losses, presented based on the invoice dates.

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
0–30 days	2,305	1,941
31–90 days	705	1,254
91–180 days	1,173	408
181–365 days	1,128	50
Over 365 days	—	34
	<u>5,311</u>	<u>3,687</u>

All of the Group's trade receivables and lease receivables were past due at the end of both reporting periods. The Groups hold security deposits as collaterals over the lease receivables.

17. TRADE AND OTHER PAYABLES

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Retention payables (<i>Note</i>)	12,822	11,363
Trade payables	2,238	—
Other payables, deposits received and accruals		
— Rental deposits received	24,691	16,293
— Accrued construction costs	64,060	46,103
— Accrued bonus	238	—
— Accrued agency commission	77	1,918
— Accrued management fees	2,147	1,407
— Accrued legal and professional fees	2,284	12,814
— Interest payables	2,018	6,493
— Received in advance of rental income	15,715	10,566
— Others	17,786	13,277
	<u>144,076</u>	<u>120,234</u>

Average credit period granted to the Group is 60 to 90 days (31 December 2020: 60 to 90 days). As at 30 June 2021, all trade payables were aged within 30 days based on invoice date (or date of cost recognition, if earlier).

Note: As at 30 June 2021, retention payables amounting to HK\$12,309,000 (31 December 2020: HK\$10,850,000) were aged within one year while the remaining amount of HK\$513,000 (31 December 2020: HK\$513,000) were aged one to two years. All retention payables as at 30 June 2021 and 31 December 2020 were expected to be paid or settled in less than twelve months from the end of the corresponding reporting period.

18. BORROWINGS

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Bank borrowings	<u>2,366,840</u>	<u>2,320,491</u>
Scheduled payment terms of borrowings contain a repayment on demand clause (shown under current liabilities):		
— Within one year	1,870,373	1,467,681
— In more than one year but not more than two years	287,558	573,616
— In more than two years but not more than five years	144,131	200,708
— More than five years	<u>64,778</u>	<u>78,486</u>
Total	<u>2,366,840</u>	<u>2,320,491</u>

The exposure of the Group's borrowings and the contractual maturity dates (or reset dates) are as follows:

	30.6.2021 HK\$'000 (Unaudited)	31.12.2020 HK\$'000 (Audited)
Variable-rate borrowings:		
Within one year	1,841,948	1,311,886
In more than one year but not more than two years	166,778	573,616
In more than two years but not more than five years	144,131	200,708
More than five years	<u>64,778</u>	<u>78,486</u>
	<u>2,217,635</u>	<u>2,164,696</u>
Fixed-rate borrowings:		
Within one year	28,425	155,795
In more than one year but not more than two years	<u>120,780</u>	<u>—</u>
	<u>149,205</u>	<u>155,795</u>
	<u>2,366,840</u>	<u>2,320,491</u>

The Group's variable-rate borrowings carrying interest at Hong Kong Interbank Offered Rate and Hong Kong Prime Lending Rate.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	30.6.2021	31.12.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Effective interest rates:		
— Fixed-rate borrowings	3.25% — 5.00%	3.25% — 5.00%
— Variable-rate borrowings	1.39% — 4.13%	2.50% — 4.91%

Bank borrowings are secured by the following assets of the Group:

	30.6.2021	31.12.2020
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Properties held for sale		
— Under development for sale, at cost	2,342,951	2,284,740
— Completed	449,629	449,074
	<u>2,792,580</u>	<u>2,733,814</u>
Investment properties		
— Properties, at fair value	943,941	941,903
— Properties classified as held for sale, at fair value	69,000	—
	<u>1,012,941</u>	<u>941,903</u>
Pledged bank deposits	<u>10,399</u>	<u>10,381</u>
Total	<u><u>3,815,920</u></u>	<u><u>3,686,098</u></u>

Certain banking facilities of the Group are subject to the fulfillment of covenants relating to certain financial ratios of the Group, total equity and the amount of capital expenditure incurred. If the Group breaches the covenants, the drawn down facilities will become repayable on demand. The Group regularly monitors its compliance with these covenants.

As at 30 June 2021 and 31 December 2020, none of the bank covenants relating to drawn down facilities had been breached.

19. CONVERTIBLE BONDS

Pursuant to the Acquisition mentioned in note 2, on 22 October 2020, the Company issued 3% convertible bonds with nominal value of HK\$418,000,000. The convertible bonds are perpetual in term and have no maturity date with a principal amount denominated in HK\$ of HK\$418,000,000 as part of the consideration for the Acquisition. The bonds are convertible into ordinary shares of the Company at an initial conversion price of HK\$0.5 per conversion share (subject to the adjustments in accordance with the terms of the convertible bonds) at any time during the period commencing from the date of issue of the convertible bonds up to the date which falls on the 10th anniversary of the date of issue of the convertible bonds to the extent all or part of the convertible bonds remain outstanding.

The coupon shall accrue on the outstanding principal amount of the convertible bonds and be payable annually subject to the Company's sole discretion to defer the coupon payment for a maximum period of 10 years from the date when the relevant coupon payment fall due by giving notice to the holders of the convertible bonds. In the opinion of directors, the liability component of the convertible bonds are regarded as non-current liabilities. The convertible bonds that contain liability, redemption option and conversion option components were classified separately into their respective items on initial recognition.

At the end of the reporting period, the fair value of the redemption option was determined by the difference between the fair value of equivalent convertible bonds with redemption option and without redemption option. The effective interest rate of the liability component on initial recognition and the subsequent recognition of interest expense on the convertible bonds was calculated using effective interest rate of 7.87% per annum. There was no redemption and conversion of the convertible bonds since its issuance.

The movements of the components of the convertible bonds during the period and prior year are set out below:

	Redemption derivative component HK\$'000	Liability component HK\$'000	Equity component HK\$'000	Total HK\$'000
As at 1 January 2020	—	—	—	—
Issue of the convertible bonds	30,769	(74,672)	(313,698)	(357,601)
Effective imputed interest expense recognised	—	(1,128)	—	(1,128)
Change in fair value	4,821	—	—	4,821
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2020	35,590	(75,800)	(313,698)	(353,908)
Effective imputed interest expense recognised	—	(2,916)	—	(2,916)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2021	<u>35,590</u>	<u>(78,716)</u>	<u>(313,698)</u>	<u>(356,824)</u>

20. SHARE CAPITAL

The movements in share capital of the Company are as follows:

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 1 January 2020, 31 December 2020 and 30 June 2021	<u>1,000,000,000</u>	<u>10,000</u>
Issued and fully paid:		
At 1 January 2020, 31 December 2020 and 30 June 2021	<u>641,498,000</u>	<u>6,415</u>

21. ACQUISITION OF A SUBSIDIARY

During the six months ended 30 June 2021, the Group entered into a sale and purchase agreement to acquire the equity interest of Metropolitan Kitchen Limited from a shareholder of the Company and Metropolitan Lifestyle (H.K.) Limited, a company controlled by Mr. Joe Chan, for a total cash consideration of HK\$100. The transaction was completed on 4 January 2021.

	HK\$'000
Plant and equipment	1,175
Deposits and other receivables	189
Bank balances	1,596
Amount due to a director	(7,200)
Accrual and other payables	(338)
	<hr/>
Total identified net liabilities at fair value	(4,578)
Cash consideration	—
	<hr/>
Goodwill on acquisition	4,578
Less: impairment of goodwill	(4,578)
	<hr/>
Goodwill after impairment	—
	<hr/>
Net cash inflow arising on acquisition:	
Cash consideration	—
Bank balances acquired	1,596
	<hr/>
	<u>1,596</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Company is principally engaged in property development; property investment for sale, rental or capital appreciation; provision of property management and security services; construction and fitting out works; provision of finance; wine business which includes operation of wine cellar and trading of fine wine; and provision of media production services. The various lifestyle businesses are operating under the “Metropolitan” brand name.

The revenue of the Group for the six months ended 30 June 2021 was approximately HK\$42.2 million, including revenue mainly from property investment and wine business of approximately HK\$20.7 million and HK\$11.7 million, respectively, (for the six months ended 30 June 2020 (restated): approximately HK\$31.7 million, including revenue mainly from property investment and wine business of approximately HK\$18.6 million and HK\$6.8 million, respectively), which represented an increase of approximately HK\$10.5 million as compared with the last period. The loss attributable to owners of the Company for the six months ended 30 June 2021 was approximately HK\$26.0 million (for the six months ended 30 June 2020 (restated): profit of approximately HK\$287.8 million). The decrease in revenue and profit for the six months ended 30 June 2021 was mainly due to no completion and delivery of units from the property development project and no gain arising from disposal of a subsidiary during the reporting period. The loss per share for the period was approximately HK4.06 cents as compared to earnings per share of approximately HK44.87 cents (restated) for the corresponding period of last year. The review of the individual business segments of the Group is set out below.

PROPERTY DEVELOPMENT

No revenue was recognised in this business segment for the six months ended 30 June 2021 and for the six months ended 30 June 2020. As at 30 June 2021, the Group had three completed projects, namely, (a) The Galaxy; (b) The Star and (c) The Rainbow; and five major projects under development, namely, (d) Yuen Long site; (e) The Cloud (formerly known as Tack Lee Project); (f) Kwun Tong Site Project; (g) Corner 50 Project (formerly known as Seongsu Project) and (h) Corner 19 Project (formarly know a Sausage Project). A general summary and update of the property development projects of the Group during the reporting period and as at 30 June 2021 are listed below:

- (a) The Galaxy: All units of the Galaxy have been sold out and delivered.

- (b) The Star: All units of the Star have been sold out and delivered.
- (c) The Rainbow: In order to enhance the attractiveness of properties held for sales and generate current yield from the properties, the Group has entered into several tenancy agreements to rent out the unsold commercial units. During the six months ended 30 June 2021, while no revenue was recognized for completion and delivery of the unit, the temporary rental income from properties held for sale recognised was amounted to approximately HK\$7.4 million. (for the six months ended 30 June 2020: nil revenue was recognized for completion and delivery of the unit, the temporary rental income from properties held for sale recognised was amounted to approximately HK\$4.3 million).
- (d) The Yuen Long Site Project: The Group intends to redevelop it into a residential complex with some shops on ground floor. This project is positioned as a luxury and stylish condominium residential complex targeting at young residents pursuing high quality and design driven lifestyle. The Group has obtained town planning approval around the middle of 2019 and building plan approval in February 2020. The hoarding and demolition work were completed and foundation is being laid. Application for lease modification has been lodged to the Lands Department since the fourth quarter of 2019. The binding basic terms and land premium offer has been issued on 4 August 2021, we have accepted the premium offer at HK\$818 million and the formal lease modification will be completed around 3 calendar months. Upon the completion of the property redevelopment work, the Group intends to sell the property to generate revenue.
- (e) The Cloud: The Group intended to redevelop and reconstruct a new building in light of the new initiatives of the revitalization of industrial building announced in the Policy Address by the Chief Executive in the fourth quarter of 2018. The Cloud has begun its initial stage of pre-sales in the forth quarter of 2020 and around 67% of units have been sold out. The completion and revenue recognition is expected to be at the first quarter of 2022.
- (f) Kwun Tong Site Project: The Group intends to redevelop it into a high end prestigious commercial building. Hoarding and demolition work of the existing building commenced in the third quarter of 2019 and completed in August 2020. Town planning application was submitted in fourth quarter of 2019, and was approved in the second quarter of 2020 to change the use of the site from industrial to commercial together with an additional plot ratio (about 20%) in accordance with the Government policy in the revitalization of industrial building. Upon the completion of the property redevelopment work, the Group intends to sell the property to generate revenue.

- (g) Corner 50 Project: The site is located in Seongsu area of Seoul, South Korea and the Group intends to redevelop it into a high end prestigious building. The demolition work was completed in second quarter of 2020 and the construction is expected to be completed in third quarter of 2022. Upon the completion of the property redevelopment work, the Group intends to sell the whole building to generate revenue.
- (h) Corner 19 Project: The site is located at the same area of Corner 50 Project. The Group intends to develop both projects into two high end prestigious buildings as landmark for the Group in the Seongsu area. The construction process is expected to be completed in fourth quarter of 2021. Upon the completion of the property redevelopment work, the Group intends to sell the whole building to generate revenue. In order to attract some institutional purchasers and increase the value of the building, the Group is in the progress to launch marketing scheme to some tenants with new and well-known brands, which will create a stable and high yield to the building.

For the six months ended 30 June 2021, the Group has focused on development and monitoring of the existing projects. The Group will continue to pay ongoing attention to the latest property market in Hong Kong and worldwide to ensure the Group would be able to capture the best development opportunities.

PROPERTY INVESTMENT

The Group is engaging in property investment for sale, rental or capital appreciation. Partial of the rental of business is carrying out through provision of serviced apartment; co-working space and storage under the “Metropolitan” brand.

Revenue recognised in this business segment for the six months ended 30 June 2021 amounted to approximately HK\$20.7 million (for the six months ended 30 June 2020 (restated): approximately HK\$18.6 million), representing an increase of approximately HK\$2.1 million over the corresponding period of last year. Below are the breakdown of revenue on the property investment business under serviced apartment, storage and workshop:

METROPOLITAN APARTMENT

Metropolitan Apartment is principally engaged in the business of operation of serviced apartments in Hong Kong which provided fully furnished suites with flexible monthly renewal terms. The target customers of Metropolitan Apartment are short-term overseas employees, local residents and college students. Revenue recognised in this business for the six months ended 30 June 2021 amounted to approximately HK\$1.4 million (for the six months ended 30 June 2020 (restated): approximately HK\$1.6 million), which represented a decrease of approximately HK\$0.2 million compared with the corresponding period of last year.

METROPOLITAN STORAGE AND WORKSHOP

Metropolitan Workshop is principally engaged in the business of provision of 24-hour co-working spaces ranging from private rooms/shared offices, dedicated desks, hot desks, and virtual offices to memberships in multi-location, providing flexible price plans and all equipped workspace perfect for freelancers, entrepreneurs, smaller companies and corporates. Metropolitan Storage is principally engaged in the business of provision and operation of 24-hour storage service to the public in Hong Kong. Revenue recognised in this business for the six months ended 30 June 2021 amounted to approximately HK\$18.0 million (for the six months ended 30 June 2020 (restated): approximately HK\$15.2 million), which represented an increase of approximately HK\$2.8 million compared with the corresponding period of last year.

As at 30 June 2021, the total carrying value of the Group's portfolio of investment properties (excluding those classified as held for sale), amounted to approximately HK\$994.8 million (31 December 2020: approximately HK\$1,050.7 million), which comprised floors and units in industrial and commercial buildings and farmland located in Hong Kong and Korea of HK\$950.8 million (31 December 2020: approximately HK\$1,008.0 million), and right-of-use assets ("ROU") that meet the definition of investment properties of HK\$44.0 million (31 December 2020: HK\$42.7 million).

Among all of the investment properties, the total carrying value categorized under Property Investment segment, amounted to approximately HK\$958.2 million (31 December 2020: HK\$1,014.9 million), which comprised floors and units in industrial and commercial buildings and farmland located in Hong Kong and Korea of HK\$915.6 million (31 December 2020: HK\$972.4 million); and ROU that meet the definition of investment properties of HK\$42.6 million (31 December 2020: HK\$42.5 million). The remaining investment properties were categorized under Wine Business segment.

The Group will also consider if there is any purchase opportunity for investment property or if any of the development properties have appreciation potential to be converted as investment properties, which allow more stable rental income to be generated.

PROVISION OF PROPERTY MANAGEMENT SERVICES

The Group is providing the property management services for our three completed projects The Galaxy, The Star, The Rainbow; and a residential building located at Happy Valley. The Group has also provided security services to these properties since the forth quarter of 2020. Revenue recognised in this business segment for the six months ended 30 June 2021 amounted to approximately HK\$4.8 million (for the six months ended 30 June 2020 (restated): approximately HK\$1.0 million). The Group believes that the provision of all-

rounded high quality property management and security services could help to enhance our brand recognition. The increase of upcoming completed projects and provision of services to other property owners or developers are expected to expand this business segment and help the Group to generate stable income in long run.

PROVISION OF FINANCE

The Group is operating in this business segment to provide credit facilities to individuals and corporations clients for its own development projects. Revenue generated from this business segment for the six months ended 30 June 2021 amounted to approximately HK\$2.5 million (for the six months ended 30 June 2020 (restated): HK\$3.2 million), representing a decrease of approximately HK\$0.7 million over the corresponding period of last year. The slightly decrease in revenue was mainly attributable to repayment of loan from borrowers. The Group expects this business segment will help to provide an financial assistance to the clients of the new development projects.

CONSTRUCTION AND FITTING OUT WORKS

The Group has successfully registered as a Registered General Building Contractor in the second half of 2020. Revenue generated from this business segment for the six months ended 30 June 2021 amounted to approximately HK\$2.1 million (for the six months ended 30 June 2020 (restated): HK\$1.0 million). The Group expects this business segment will create synergy with other business segments by decreasing the overall construction cost and increasing the quality control of the development projects.

WINE BUSINESS

The Group has engaged in leasing of wine cellar and trading of fine wine business through Metropolitan Wine Cellar and Metropolitan Fine Wine.

Metropolitan Wine Cellar is principally engaged in the business of provision of professional fine wine storage services and Metropolitan Fine Wine is principally engaged in wine trading which mainly targets local Hong Kong residents and offers products delivery. Revenue recognised in this business segment for the six months ended 30 June 2021 amounted to approximately HK\$11.7 million (for the six months ended 30 June 2020 (restated): approximately HK\$6.8 million), which represented an increase of approximately HK\$4.9 million compared with the corresponding period of last year.

The total carrying value of the Group's portfolio of investment properties categorized under Wine Business segment, amounted to approximately HK\$36.6 million (31 December 2020: HK\$35.8 million), which comprised a unit in industrial building located Hong Kong of HK\$35.2 million (31 December 2020: HK\$35.6 million); and ROU that meet the definition of investment properties of HK\$1.4 million (31 December 2020: HK\$0.2 million).

MEDIA PRODUCTION SERVICES

Metropolitan Production is principally engaged in the business of provision of marketing solution and consultancy services, film or advertisement production, organization of local and overseas events and music concerts and artist management. Revenue recognized in this business segment for the six months ended 30 June 2021 amounted to approximately HK\$0.3 million (for the six months ended 30 June 2020 (restated): approximately HK\$1.0 million).

CAPITAL STRUCTURE

Detail of the movements in the Company's share capital are set out in note 20 of this Interim Result Announcement.

LIQUIDITY AND FINANCIAL RESOURCES

The total equity of the Group as at 30 June 2021 was approximately HK\$1,395.3 million (31 December 2020: approximately HK\$1,413.7 million). As at 30 June 2021, the Group maintained bank balances and cash of approximately HK\$111.0 million (31 December 2020: approximately HK\$55.5 million). The Group's net current asset was approximately HK\$466.4 million (31 December 2020: HK\$385.1 million). The Group had current assets of approximately HK\$3,184.4 million (31 December 2020: approximately HK\$2,942.2 million). The increase of current assets was mainly due to increase in deposit received from sales of The Cloud keep at stakeholder's account and properties classified as properties held for sale. The Group had current liabilities of approximately HK\$2,718.0 million (31 December 2020: approximately HK\$2,557.1 million). The increase of current liabilities was mainly due to increase in pre-sale contract liabilities of The Cloud and bank borrowings.

The Group generally finances its operations with internally generated cash flow, convertible bonds and bank borrowings. As at 30 June 2021, the Group had convertible bonds with liability portion of approximately HK\$78.7 million (31 December 2020: approximately HK\$75.8 million); and outstanding bank borrowings of approximately HK\$2,366.8 million (31 December 2020: approximately HK\$2,320.5 million). The bank borrowings as at 30 June 2021 were secured by the Group's properties, pledged bank deposits, and corporate guarantee.

The Group's gearing ratio (defined as the total interest-bearing borrowings divided by total equity and multiplied by 100%) and net debt-to-equity ratio (defined as the total borrowings net of cash and cash equivalents divided by total equity) increase from approximately 164.1% as at 31 December 2020 to approximately 169.6% as at 30 June 2021 and increase from approximately 160.2% as at 31 December 2020 to approximately 161.7% as at 30 June 2021 respectively. The increase of both ratios was primarily due to the increase of bank borrowings and the loss attributable to owners of the Company as well as increase in pre-sale contract liabilities of The Cloud.

The Group's debt-to-assets ratio (total borrowings net of cash and cash equivalents divided by total assets) decreased from approximately 54.8% as at 31 December 2020 to approximately 52.7% as at 30 June 2021 due to the increase of deposit received from sales of The Cloud.

The Group's capital commitment as at 30 June 2021 amounted to approximately HK\$376.2 million (31 December 2020: approximately HK\$419.1 million). The decrease of capital commitment was mainly due to payment of the construction cost of the development projects.

The Group has no significant contingent liabilities as at the end of the reporting period. The Group possesses sufficient cash and available banking facilities to meet its commitments and working capital requirements.

The Group adopts a continuing monitoring approach towards financial management policy so that the financial resources are reviewed from time to time to ensure the Group's smooth operation and loan repayment obligations. Therefore, the management of the Group is of the opinion that the Group's financial structure and resources are healthy and sufficient for meeting its needs on operation, potential investment and to cope with market changes.

CONVERTIBLE BONDS

The Company (as purchaser) and Metropolitan Lifestyle (BVI) Limited (as vendor) entered into the Acquisition Agreement to acquire the Sale Share and Sale Loan of Metropolitan Group (BVI) Limited (as defined in the circular of the Company dated 15 September 2020) at an aggregate consideration of HK\$460,000,000, which will be satisfied by (i) part payment in cash; and (ii) allotment and issue of the convertible bonds (the "**Convertible Bonds**") on 21 July 2020. The Convertible Bonds which bear a coupon rate of 3% per annum, in the principal amount of HK\$418,000,000 have been issued to Metropolitan Lifestyle (BVI) Limited on 22 October 2020. Please refer to the announcements of the Company dated 21 July 2020, 30 September 2020 and the circular of the Company dated 14 September 2020.

FOREIGN EXCHANGE EXPOSURE

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments in South Korea which are denominated in United States dollars and Korean Won. The Group owned 3 sites in South Korea and the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations are mainly in US dollars and Korean Won.

In respect of the Group's operations in South Korea, the Group maintains an appropriate level of external borrowings in Korean Won for natural hedging of Korean Won attributed to those projects. The Korean Won currency exposure of the Group is mainly derived from the translation of current assets and liabilities of the subsidiaries in South Korea with functional currency of Korean Won and the Korean Won deposits held for future development costs to be expended to Hong Kong dollar.

As at 30 June 2021, offshore borrowings were approximately Korean Won 28.5 billion, which is approximately HK\$195.4 million (31 December 2020: approximately Korean Won 22.0 billion, which is approximately HK\$155.8 million), as land loan, construction loan and project loan for the projects in South Korea. The offshore borrowings are expected to be repaid after the disposal of projects in South Korea. The interest rates of these bank borrowings ranged from 2.97% to 5% as at 30 June 2021 (31 December 2020: 3.37% to 5%).

Apart from this, the Group does not have any significant foreign exchange exposure. Foreign currency funding and deposit exposure are monitored on a continuous basis. Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency. The management of the Group is of the opinion that the Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the reporting period. Therefore, the Group does not engage in any hedging activities.

PLEDGE OF ASSETS

As at 30 June 2021, the Group's investment properties and properties held for sale, as well as pledged banks deposits with carrying value of approximately HK\$1,012.9 million and HK\$2,792.6 million as well as HK\$10.4 million respectively (31 December 2020: approximately HK\$941.9 million and HK\$2,733.8 million, as well as HK\$10.4 million respectively) were pledged to secure the Group's banking facilities.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the reporting period, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 3 March 2021 (after trading hours), Ritzy Soar Limited, an indirect wholly owned subsidiary of the Company, as the vendor, entered into a provisional agreement with an independent third party, as the purchaser, pursuant to which the vendor has agreed to sell and assign, and the purchaser has agreed to purchase and take up an assignment of, the entire equity interest of Palico Development Limited, at the purchase price of HK\$51,750,000 (subject to adjustment). As at the date of this announcement, the purchaser has exercised the rights to extend the completion date to 3 September 2021 and has paid the Additional Deposit in the sum of HK\$2,587,500 to the vendor's solicitor according to the terms and conditions set forth in the provisional agreement. Details of the provisional agreement and the transaction were disclosed in the announcement of the Company dated 3 March 2021.

On 25 June 2021 (after trading hours), Well Sure Corporation Limited, an indirect wholly owned subsidiary of the Company, as the vendor, entered into a provisional sales and purchases agreement with an independent third party, as the purchaser, to dispose of an investment property located at Shop No. 94 on 1/F of the Podium, Admiralty Centre, No.18 Harcourt Road, Hong Kong, at the purchase price of HK\$19,000,000. Details of the provisional sales and purchases agreement and the transaction were disclosed in the announcement of the Company dated 25 June 2021. The transaction was completed on 23 August 2021.

Save for those disclosed in this announcement, there was no significant investments held, nor were there any material acquisitions or disposals of subsidiaries during the reporting period.

Save as disclosed in this announcement, the Group did not have other plans for material investments or capital assets as of 30 June 2021.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group employed 99 employees (31 December 2020: 99 employees) and appointed 8 Directors. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to individual performance, working experience, qualification and the current relevant industry practices. Apart from base salary and statutory provident fund scheme, discretionary bonus and share options may be granted to selected staff by reference to the Group's as well as the individual's performances. Other forms of benefits such as education subsidy, medical scheme, on-the-job and external training to staff are also provided. The Group has not experienced any material dispute with its employees or disruption to its operations due to employee dispute and has not experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel. The Group maintains a good relationship with its employees.

POSSIBLE RISKS AND UNCERTAINTIES

The Group has reviewed the possible risks and uncertainties which may affect its businesses, financial condition, operations and prospects, and considered that the major risks and uncertainties that may affect the Group included (i) economic and financial conditions which may directly affect the property market or purchasing power. The operating entities in the business of provision of serviced apartments, workshops, storage and wine cellars will also be highly affected by the economy of Hong Kong; (ii) supply and price level of land banks may have significant impact to our development project planning; (iii) the continuous increase of construction costs may increase the cost of the development project; (iv) legislative and regulatory changes may affect the completion time of our property development projects or the market sentiment like property cooling measures imposed by the Government from time to time; (v) outsource of construction works to independent third parties that they may fail to provide satisfactory services adhering to our quality and safety standards as well as within the timeline required by the Group; (vi) the revenue cycle is strongly depends on the sales of properties which may lead to significant fluctuation of profitability in different periods; (vii) fluctuations of fair value gain or loss incurred on financial assets and investment properties; (viii) credit risk from provision of finance which may incur bad debts during the downturn of economy; (ix) bank borrowing and interest rate risk which may limit or otherwise materially and adversely affect our business, results of operations and financial conditions; and (x) the operational expenses may also be affected by the economic situations.

The Board acknowledges its responsibility to monitor the risk management and internal control systems of the Group on an ongoing basis and reviewing their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Group has set up a risk control committee to coordinate, respond to and to tackle the abovementioned possible risks and uncertainties, and has serious scrutiny over the selection of quality customers and suppliers. The risk control committees is also responsible for developing and reviewing strategies, policies and guidelines on risk control; which enable the Group to monitor and response to risk effectively and promptly. The Group has also engaged internal auditor to review the internal operation flow to ensure the compliance with relevant rules and regulations. The Group also actively proposes solutions to lower the impact of the possible risks on the businesses of the Group.

IMPACT OF COVID-19 PANDEMIC

The Group has implemented a series of precautionary and control measures since the outbreak of COVID-19 to ensure business continuity. In order to protect our workforce from outbreak, the Group has provided clear and timely guidelines to all staffs; maintained a close monitoring on all staff's health status, travel history and potentially infectious contacts; provided extra sanitization products and air purifier machine to all sites. Since the

business operations of Metropolitan Group involve direct contact with a lot of customers, the Group has ensured proper sanitization and cleaning work is done on a regular basis. If there is any confirmed case at the site, a complete disinfection and sanitation of the whole area should be carried out by professional cleaning services provider before allowing any people to re-enter the location. Notification to all of the customers of the relevant site will also be made immediately. The Group has encouraged its staffs, who are eligible and fit, to take COVID-19 vaccination to protect themselves and others. As the daily confirmed case decreased in Hong Kong since early of 2021, the market sentiment has changed and benefited the pre-sales of The Cloud. Whereas the release of various COVID-19 Government measures, it is expected that the development process will be picked up soon.

PROSPECT

Property market in Hong Kong, in particular, the residential and retail sectors, have deflected all the negative news, including pandemic, frozen borders, waves of emigration and the massive drop off of those technology stocks listed in Hong Kong in the first half year in 2021. The transaction price of the retail shops are on the rise noticeably whereas the transaction volume of the retail shops is blasting. From the figures by Centaline Commercial at oir.centanet.com, the number of transactions of retail shops in the first five months of 2021 has been increased by 273% year on year. The residential price measured by Centa-city Leading index released in August 2021 has exceeded the historical high made in May 2019. These all implies that the intrinsic demand on both the residential and retail shops are huge.

Looking ahead, along with more than 7.4 million doses of vaccines jabbed and 60% of the whole population of Hong Kong have been jabbed the first jab at the end of August 2021. It is expected that more than 70% of the whole population will complete the full vaccination very soon. Coupled with the next to zero COVID-19 cases found since June 2021, we believe the borders with China are coming to reopen soon which are matter to the property market across office, retail and residential. As such, we remain conservatively optimistic on the prospect of property market in Hong Kong.

OTHER INFORMATION

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: HK2.0 cents per share). No final dividend was declared for the year ended 31 December 2020 (31 December 2019: HK0.2 cents per share).

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) relating to dealings in securities. Memorandum was sent to the Directors twice a year to draw their attention to the Model Code. Having made specific enquiries of each Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the reporting period and no incident of non-compliance by the directors was noted by the Company throughout the reporting period.

DISCLOSURE UNDER RULES 13.18 AND 13.21 OF THE LISTING RULES

In accordance with the continuing obligations set out in rule 13.21 of Chapter 13 of the Listing Rules, the following are the details of the loan agreement with covenants relating to specific performance on the controlling shareholders of the Company pursuant to rule 13.18 thereof. There exists no reporting obligation by the Company under rules 13.17 and 13.19 of the Listing Rules accordingly.

- On 13 August 2020, Noble Energy Limited (an indirect wholly owned subsidiary of the Company), as the Borrower, entered into a facility agreement (the “**Cloud Facility Agreement**”) with a bank for the land and construction loan up to an aggregated amount of HK\$255,048,000 at the terms of 21 months from the date of signing of Cloud Facility Agreement or 6 months after the issuance of occupation permit for The Cloud, whichever is earlier. Pursuant to the terms of the Cloud Facility Agreement, the Company undertakes with the bank, inter alia, that Mr. Chan Man Fai Joe, the Chairman and controlling shareholder of the Company, shall maintain his directorship and/or indirect beneficial shareholding in the Company for not less than 60% and maintain control over the management and business of the Group. As at the date of the Cloud Facility Agreement, Mr. Chan Man Fai Joe held direct and indirect an aggregate interest in 434,640,800 shares in the Company, representing approximately 67.75% of the issued share capital of the Company.
- On 27 November 2020, the Company entered into a facility agreement with a bank for the general banking facilities of an revolving loan amount of HK\$30,000,000. Pursuant to the terms of the facility agreement, Mr. Chan Man Fai Joe shall, directly or indirectly, maintain not less than 51% shareholding of the Company. As at the date of the loan agreement, Mr. Chan Man Fai Joe holds approximately 68.69% of the issued share capital of the Company.

- On 25 August 2021, Sincere Gold Properties Limited (an indirect wholly owned subsidiary of the Company), as the Borrower, entered into a facility agreement (the “**WYSW Facility Agreement**”) with banks for the land and construction loan and part of the facilities is to refinance the existing facilities with Hang Seng Bank up to an aggregated amount of HK\$1,241,677,000 at the terms of 24 months from the date of signing of WYSW Facility Agreement or 6 months after the issuance of certificate of compliance for the project located at No. 21 Wang Yip Street West, Yuen Long, New Territories, whichever is earlier. Pursuant to the terms of the WYSW Facility Agreement, the Company undertakes with the bank, inter alia, that Mr. Chan Man Fai Joe, the Chairman and controlling shareholder of the Company, shall maintain his directorship and/or indirect beneficial shareholding in the Company for not less than 60% and maintain control over the management and business of the Group. As at the date of the WYSW Facility Agreement, Mr. Chan Man Fai Joe held direct and indirect an aggregate interest in 440,640,800 shares in the Company, representing approximately 68.69% of the issued share capital of the Company.

As at 30 June 2021, the aggregate interest in the shares in the Company held by Mr. Chan Man Fai Joe, direct and indirect, is 440,640,800 shares, representing approximately 68.69% of issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the Period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules with the exception for code provision A.2.1, which requires the roles of chairman and chief executive officer be in different individuals, throughout the Period.

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Chan Man Fai Joe currently holds both positions. Throughout our business history, Mr. Chan Man Fai Joe has been the key leadership figure of the Group who has been primarily involved in the formulation of business strategies and determination of the overall direction of the Group. He has also been chiefly responsible for the Group’s operations as he directly supervises our senior management.

The Company has considered the issue of balance of power of authority on the Board and believes the structure of the Company, including strong independent elements in the Board, delegation of authorities to the management, supervision by the Board and Board committees, is sufficient to address the potential issue on power concentration. All Directors, who bring different experience and expertise to the Company, are properly briefed on issues arising at Board meetings and that adequate, complete and reliable information is received by the Directors. Furthermore, decisions of the Board are made by way of majority votes. The Board believes that this structure is conducive to a more precise and more promptly response to the fast changing business environment and a more efficient management and implementation of business process. The Board also considers that vesting two roles in the same person provides the Group with strong and consistent leadership in the development and execution of the Group's business strategies. The Board consider Mr. Chan Man Fai Joe the best candidate for both positions and the present arrangements are beneficial and in the interests of our Company and our shareholders as a whole.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors, namely, Ms. Chan Wah Man Carman, Mr. Lee Chung Ming Eric and Dr. Wong Wai Kong with Ms. Chan Wah Man Carman being the chairman of the Audit Committee.

The Audit Committee has reviewed the unaudited consolidated interim results and the interim report of the Company for the six months end 30 June 2021 and agreed to the accounting principles and practices adopted by the Company.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A results announcement and an interim report containing the information required by the Listing Rules will be published on the website of the Stock Exchange (www.hkex.com.hk) and the Company (www.stargroup.net) in due course.

For an on behalf of the Board
Star Group Company Limited
(Carrying on business in Hong Kong as SGCL)
Chan Man Fai Joe
Chairman

Hong Kong, 31 August 2021

As at the date of this announcement, the Board consists of four executive Directors, namely Mr. Chan Man Fai Joe (Chairman), Ms. Cheung Wai Shuen, Mr. Pong Kam Keung and Ms. Hui Ying Ying; one non-executive Director, namely Mr. Yim Kwok Man; and three independent non-executive Directors, namely Dr. Wong Wai Kong, Mr. Lee Chung Ming Eric and Ms. Chan Wah Man Carman.